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RR RUEH DU RUEHGI RUEHJO RUEHMR  
DE RUEH KI #1082/01 1871304  
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R 061304Z JUL 06  
FM AMEMBASSY KINSHASA  
TO RUEHC/SECSTATE WASHDC 4315  
INFO RUEHXR/RWANDA COLLECTIVE  
RUCNSAD/SOUTHERN AFRICAN DEVELOP COLLECTIVE  
RUEAIIA/CIA WASHDC  
RUFOADA/JAC MOLESWORTH RAF MOLESWORTH UK  
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UNCLAS SECTION 01 OF 03 KINSHASA 001082

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SUBJECT: ECONOMICS ALONG THE UGANDAN BORDER: ITURI  
  
REF: KINSHASA 818

11. (SBU) Summary. EconOff and PolOff visited the major towns of the troubled Ituri District in Eastern DRC - Bunia, Aru and Mahagi - May 6 through 10. As in the Grand Nord region of neighboring North Kivu, legal and illegal cross-border trade, the absence of national government control and a strong Ugandan economic influence is pervasive. The resulting economic environment is thus oriented toward Uganda rather than the DRC, with militia groups, the Congolese military and traders profiting from loose border control and illegal commerce. End summary.

#### UGANDAN INFLUENCE

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12. (U) The Ugandan economic influence along the Ituri-Uganda border is identical in many ways to that in the "Grand Nord" (reftel). (Note: The Grand Nord refers to the northern region of neighboring North Kivu province. End note.) This influence is most evident in the near-exclusive use of the Ugandan shilling within a twenty-mile swath of the border, including nearly all of Aru territory, and in extensive cross-border trade. Contacts told EconOff that the shilling makes up as much as ninety percent of the currency in circulation. Further, the factors that promote Ugandan influence in Ituri are similar to those in the Grand Nord, including a debilitated infrastructure, the lack of a manufacturing base, underpaid or unpaid military and civil servants, inadequate border control, and geographical proximity.

13. (SBU) As in the Grand Nord, EconOff found that the local population relies heavily on imports from Uganda and other countries to meet its consumer and commercial needs, largely because the DRC's infrastructure does not support the area's own production and distribution network. SNEL, the DRC national electricity parastatal, has no regional operations. In Aru, for example, the UNHCR's diesel generator is the main electricity source. Via a nearly sixty-year old decrepit hydroelectric plant, the DRC's gold mining parastatal, OKIMO, supplies about 5 MW to local residents and businesses in Bunia, plus a few MW to a small OKIMO support facility and to Mongwalu, an OKIMO concession. The rusting plant, at which only two of the four generators are operational, has no security and is missing part of its roof, which an OKIMO official told EmbOffs was due to a fire that occurred several years ago.

14. (SBU) Because of this lack of infrastructure, the Ituri-Uganda border region has no capacity to develop even a small manufacturing base, unlike that in North Kivu. Business owners told EconOff that coffee and cotton processing plants were destroyed following the conflicts of the last ten years, and growers must now export the raw materials to Uganda.

CROSS-BORDER TRADE

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¶15. (SBU) In addition to being a major supply route into the DRC, Uganda is also an open door for the exit of legal, and more often illegal, goods from the DRC. The FARDC (DRC's armed forces), as well as Ugandan and Congolese customs officials and business persons, are believed to participate in this trade. As in North Kivu, it is widely suggested that some FARDC forces participate in cross-border smuggling of the DRC's natural resources, motivated in part by their low pay. The FARDC also profits from this trade through their increasing control of the borders. (Note: Accounts vary as to how regularly the troops are paid, although FARDC soldiers in Bunia were receiving their first payments in several months during Emboffs' visit. End note.) Several contacts told Emboffs that some FARDC elements have wrested control of the gold trade from the militias (see e.g., the 2005 Human Rights Watch report "Curse of Gold"), because they have blocked the militias' access to the gold mines in the past year. MONUC officials in Bunia told Emboffs that high-level military officers participate in the illegal export, while others in Ituri said that it is lower-level, extremely low-paid soldiers who do so.

¶16. (SBU) FARDC officials, though, claim the military has no involvement in illegal trade. The then-FARDC Ituri Commander, General Bob Ngoie, told Emboffs that FARDC elements previously participated in illicit trade but do so no longer. FARDC commanders in Aru also denied any involvement beyond a few isolated cases. Conversely, customs officials told Emboffs that FARDC elements do participate in customs fraud, although all said that the degree to which it occurs has decreased since 2003. (Comment: It is not clear how credible customs officials' claims are that FARDC involvement in customs fraud has decreased. It is instead possible that customs officials' involvement in the schemes has grown. It is also likely

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local officials are complicit with the FARDC in abetting illegal trade. End comment.)

¶17. (SBU) Customs officials were more forthcoming than their counterparts in North Kivu in admitting the extent of customs fraud at the borders with Uganda. They offered EconOff a variety of explanations for the high frequency of fraud, including the GDRC's failure to provide adequate resources to the customs agencies, the several-mile gap in some locations between the actual frontier and the collections stations, excess Congolese border taxes, relatively higher Ugandan import taxes, and an ingrained culture of tax evasion. These interconnected conditions, officials say, create the incentives for traders and government officials to smuggle.

¶18. (SBU) Customs authorities claimed they are underpaid and lack the tools needed to do their jobs. The bare offices in Mahagi demonstrated the lack of central government financial support for customs officials, as did accounts of months of salary arrears. The head of Mahagi's OFIDA office (DRC's customs agency) said January was the first month for which the DRC has paid him since before ¶1997. He also said that his office has just one copy of the DRC's customs schedules, so officials do not know the correct amounts to collect. The head of the DGRAD office (DRC's administrative collection agency) in Aru told EconOff that he and his staff have not been paid in three months.

¶19. (SBU) Facing what they say are inadequate salaries, Congolese customs officials take their income where they can find it. The head of Aru's DGI (DRC's income tax collection agency) estimated that area tax and customs agencies remit only about one-twelfth of their receipts to the national government, retaining the rest for salaries and other purposes. (Comment: This fraud and the GDRC's failure to provide adequate resources may be a chicken-or-egg issue. The GDRC may refrain in part from providing resources if it believes that the collections services can support themselves through local revenues. End comment.)

¶10. (U) As a result of the collection services' real and perceived lack of resources, GDRC agencies impose on traders a multiplicity of taxes and fees at the borders to raise income. A MONUC officer in Bunia told Emboffs that as many as 27 agencies collect at the

border. Some of the fees and taxes levied are entirely unauthorized, while others have a legal basis but no direct connection with import activities, such as taxes paid to the Ministries of Energy and Environment.

¶11. (U) The imposition of excessive border fees further encourages an already ingrained habit of customs fraud. The DRC experienced what was essentially a 40-year tax holiday, beginning in the Mobutu era, when few if any citizens paid taxes to the GDRC. This habit grew during the DRC's civil war from 1997-2003, when militias controlled the borders and thus facilitated a sort of "free trade zone." The OFIDA director in Mahagi told EconOff that goods crossed the borders tax-free, with customs officials complying either voluntarily or under militia threat. The Mahagi DGI director said Ugandan traders still import goods tax-free to markets along the border, disadvantaging Congolese traders who must pay import duties. During this period, no revenues made their way back to Kinshasa nor did the GDRC pay salaries or provide any other financial support to the province. According to Mahagi's DGI director, this tax evasion became the modus operandi throughout much of eastern Congo.

¶12. (U) This habit is proving hard to break, as even the GDRC's post-rebellion financial support for Ituri territorial governments is reportedly only nominal. For example, the Aru Administrator told EmbOffs that his territory has received only 9000 USD in retrocessions from Kinshasa since 2003. With minimal support for the region, local officials and business persons see little incentive to pay taxes. Finally, the potential for fraud is also present, because no established banking system exists in Aru or Mahagi. Hence, banks do not serve as a collection agent of customs revenues, as they do in Boma and Matadi. Customs officials can easily put the cash revenues into their pockets rather than into official coffers, particularly as they must take the money to distant Bunia or elsewhere to deposit it in a commercial bank.

¶13. (U) The absence of goods inspection and revenue collecting stations at some border crossings may also facilitate customs fraud. For example, the Aru customs agencies are about four miles from the Ugandan border, permitting both agency sub-office authorities and traders to benefit. An Aru MONUC officer said the sub-offices at the border only inspect import-export documents (papers that might not be accurate), not the goods. Traders therefore have the opportunity to onload or offload goods between the border and the customs post and possibly even alter documents. OFIDA's director in

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Mahagi told EconOff that this situation exists because OFIDA's headquarters in Kinshasa will not authorize moving the main office closer to the border crossing.

¶14. (SBU) The DRC's primary exports from Ituri are wood, coffee, cotton, tobacco, fish, gold and coltan (columbite-tantalite). As stated above, though, the region must import most of its consumer goods, as well as petroleum products, vehicles and equipment. Most of the exported wood reportedly comes from Aru and territories neighboring Mahagi, such as Fardje, and it is widely believed that a great deal of it is smuggled into Uganda. As in North Kivu, FARDC commanders denied involvement in this illegal trade, but local media reports and EmbOff contacts, including the Aru territory administrator and a MONUC officer in Aru, said some FARDC troops likely facilitate transport.

¶15. (U) EmbOffs' contacts generally admit that the smuggling of precious metals out of the DRC - gold, diamonds and coltan - is widespread. As discussed above, MONUC officers, customs officials and business owners told EmbOffs that militia involvement in smuggling has significantly decreased because joint MONUC-FARDC operations have disrupted trade routes, particularly surrounding some gold mines. However, it is difficult to know whether illegal export has decreased overall. (Note: Both private and public sector contacts told EconOff that price decreases have reduced coltan exportation. End note.) Many contacts told EconOff that gold is smuggled into Uganda, although almost none could estimate amounts, stating that it is easily concealed in small bags. A MONUC officer in Bunia estimated that at Mongbwalu, a major mine about 93 miles from Bunia, ten times as much gold is smuggled as is legally

exported. (Comment: Essentially all gold is artisanally mined, making illegal exports even easier. If industrial joint-venture mining operations in OKIMO's concessions can launch production, illegal exports should decrease. End comment.)

¶16. (U) The illegal export of coffee, fish and other natural resources is also supposedly widespread, particularly via the largely uncontrolled Lake Albert. A business owner told EconOff that, while disease has not affected Ituri's coffee crop, there are no domestic factories to process the coffee. Hence, much Congolese-grown coffee is smuggled into Uganda, where processing factories exist. The Mahagi representative of a forwarding company told EconOff that he estimates that annually about 3,500 tons of coffee are illegally exported from Mahagi territory - twice the amount the National Coffee office told him is officially exported. The Mahagi territory administrator said he believes that half of what Uganda exports as its own coffee is actually of Congolese origin.

¶17. (U) Petroleum is also traded across the Ugandan border, imported into the DRC after coming from Kenya, since the region has no alternative source. While some is sold domestically, some is smuggled back into Uganda through a duty-avoidance scheme. A MONUC official in Aru told Emboffs that traders avoid Uganda's higher import taxes by importing petroleum into the DRC through Uganda, paying only transit duties in Uganda. Some of the petroleum is then smuggled back into Uganda, thereby avoiding higher Ugandan import fees.

Comment  
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¶18. (SBU) To reintegrate fully the Ituri-Ugandan border region, the GDRC must continue to focus on activities that will capture increased revenue in the region. In the short term, these activities can include regularly paying the military and public employees. In the medium-to long-term, while the list is long, priorities should include the GDRC developing plans to replace current customs and border officials with non-Iturians, as well as increasing border control, particularly along porous areas such as Lake Albert. In these efforts, the GDRC should seek the support, advice and cooperation of MONUC, World Bank and bi-lateral donors as well as the Government of Uganda - to the extent practical. End comment.

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